FILED
01/10/22
04:59 PM

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking Regarding Building Decarbonization.

Rulemaking 19-01-011
(Filed January 31, 2019)

# REPLY COMMENTS OF THE CALIFORNIA ENVIRONMENTAL JUSTICE ALLIANCE, ENVIRONMENTAL DEFENSE FUND, NATURAL RESOURCES DEFENSE COUNCIL, SIERRA CLUB, AND THE UTILITY REFORM NETWORK ON THE PHASE III SCOPING MEMO AND STAFF PROPOSAL

January 10, 2022

KIKI VELEZ
MERRIAN BORGESON
Natural Resources Defense Council
111 Sutter Street, 21st Floor
San Francisco, CA 94104
Tel: (415) 875-6100
Email: kvelez@nrdc.org

HAYLEY GOODSON
The Utility Reform Network
785 Market Street, Suite 1400
San Francisco, CA 94103
Telephone: (415) 929-8876
Email: hayley@turn.org

JUSTIN BOGDA
JINA KIM
Communities for a Better Environment
340 Marina Way
Richmond, CA 94801
Telephone: (510) 302-0430
Email: jbogda@cbecal.org, jkim@cbecal.org
*Representing California Environmental Justice Alliance*

DEBORAH BEHLES
Of Counsel for CEJA
2912 Diamond Street, #162
San Francisco, CA 94131
Telephone: (415) 841-3304
Email: deborah.behles@gmail.com
*Representing California Environmental Justice Alliance*

NIHAL SHRINATH
Sierra Club
2101 Webster Street, Suite 1300
Oakland, CA 94612
Telephone: (415) 977-5566
Email: nihal.shrinath@sierraclub.org

MATTHEW VESPA
Earthjustice
50 California St., Suite 500
San Francisco, CA 94111
Telephone: (415) 217-2123
Email: mvespa@earthjustice.org
*Counsel for Sierra Club*

MICHAEL COLVIN
Environmental Defense Fund
123 Mission Street 28th Floor
San Francisco, CA 94105
TEL: (415) 293-6122
Email: mcolvin@edf.org

**BEFORE THE PUBLIC UTILITIES COMMISSION**
**OF THE STATE OF CALIFORNIA**

| | |
|---|---|
| Order Instituting Rulemaking Regarding Building Decarbonization. | Rulemaking 19-01-011 (Filed January 31, 2019) |

# REPLY COMMENTS OF THE CALIFORNIA ENVIRONMENTAL JUSTICE ALLIANCE, ENVIRONMENTAL DEFENSE FUND, NATURAL RESOURCES DEFENSE COUNCIL, SIERRA CLUB, AND THE UTILITY REFORM NETWORK ON THE PHASE III SCOPING MEMO AND STAFF PROPOSAL

Pursuant to Rule 14.3 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure, the California Environmental Justice Alliance ("CEJA"), Natural Resources Defense Council ("NRDC"), Environmental Defense Fund ("EDF"), Sierra Club, and The Utility Reform Network ("TURN") – collectively "The Joint Parties" – respectfully submit these reply comments on the Commission's Phase III Scoping Memo and Staff Proposal. The Joint Parties provide the verification as requested in the Assigned Commissioner's Amended Scoping Memo and Ruling according to Rule 1.11, included here as Attachment A.

## I. INTRODUCTION

The Joint Parties respectfully recommend that the Commission adopt the Staff Proposal consistent with our Opening Comments. In our review of other parties' Opening Comments, we strongly urge the Commission to 1) deny any proposal to delay implementation of the Proposal, and 2) to eliminate gas line extension allowances, refunds, and discounts (collectively, "subsidies") for all customer classes in this Proceeding, without granting broad and unfounded exemptions for industrial and large commercial customers. We appreciate the opportunity to comment on the Staff Proposal, and hope that the Commission will adopt it in full without delay.

Parties' Opening Comments on the Staff Proposal are clear: groups representing **utilities, consumer advocates, and environmental and equity organizations all agree** that the Commission should eliminate gas line extension allowances, refunds, and discounts. Southern California Edison (SCE) "supports the Staff Proposal to eliminate gas line extension allowances, refunds, and discounts for all customer classes, effective July 1, 2023;"[1] the Public Advocates Office (Cal Advocates) "supports Staff's recommendation to eliminate gas line extension allowances…for all customer classes;"[2] and the Joint CCAs write that the "elimination of subsidies encouraging expanding fossil fuel infrastructure is long overdue."[3] The Joint Utilities, representing the largest gas utilities in California, write that they "do not oppose the Staff Proposal for the elimination of gas line extension allowances, refunds, and discounts for all residential customers,"[4] and even Clean Energy, North America's largest provider of methane-based transportation fuel, concedes that "elimination of gas line incentives for residential and commercial customer classes may help achieve the State's GHG Goals."[5] This near-consensus is demonstrative of the pressing climate, equity, and affordability imperatives of eliminating gas line extension subsidies: there is no compelling reason to continue requiring ratepayers to subsidize gas system line extensions. The Joint Parties contend that **adopting the Staff Proposal is a critical and common-sense next step in the effort to equitably decarbonize California's buildings and combat climate change**.

However, several parties' comments seek to slow the timeline for adopting the Staff Proposal or attempt to reduce the scale of the changes proposed. These parties misrepresent the potential impact of eliminating gas line extension subsidies, conflating them with some of the potential impacts of unplanned or managed whole-sector building electrification. For example, the Coalition of California Utility Employees (CUE) hyperbolically raises possible impacts on "energy reliability, gas rates and gas workers... [as well as] existing natural gas infrastructure safety, maintenance and maintenance cost" that might result from eliminating gas line extension allowances.[6] Similarly, Southwest Gas (SWG) argues that "the Staff Proposal stands to impede customer choice, create an uneven playing field, increase costs to Californians, and foster reliability risks."[7] These arguments are unsubstantiated and conflate removing a subsidy for new gas connections with an unplanned, wholesale, and forced removal of existing gas connections.

[1] SCE Opening Comments, p. 2.
[2] Cal Advocates Opening Comments, p. 2.
[3] Joint CCA Opening Comments, p. 2.
[4] Joint Utilities Opening Comments, p. 6.
[5] Clean Energy Opening Comments, p. 2.
[6] CUE Opening Comments, p. 2.
[7] SWG Opening Comments, p. 3.

In reality, eliminating gas line extension subsidies is a minor first step to encourage—but not require—developers and customers to opt for all-electric buildings. Adopting the Staff Proposal would not in fact "limit choice." Instead, this proposal does the bare minimum of **removing the subsidies for a tiny portion of the market**, subsidies that all customers are currently paying and that undermine our collective ability to reach California's 2030 and 2045 climate goals. New construction accounts for only 0.8 percent of California housing units each year, and eliminating these subsidies will have negligible impacts on reliability, electric rates, and workforce in the near-term—and, in the long-term, this measure will represent only a minor first step towards the sector-wide building electrification that California is already moving towards. Moreover, sector-wide decarbonization is *required by California law.* As the Staff Proposal notes, the State is already actively planning for the transition to all-electric buildings to facilitate decarbonization. These efforts include the Commission's own Building Decarbonization and Long-term Gas Planning Proceedings—the latter of which will address the important workforce, reliability, and gas rate impacts that CUE and others raise in comments. Planning for electrification is also underway at the utility level. As SCE describes, "[a]t the system level, SCE continuously evaluates how the grid must evolve to support California's GHG reduction goals as laid out in SCE's Pathway 2045 analysis," and "SCE's grid is ready to accommodate building electrification with proper planning."[8]

Eliminating gas line extension subsidies as soon as possible is a modest but critical first step to address California's pressing climate and equity goals. As SCE properly observes, "[a]s there are only eight years left for California to meet its 2030 emission reduction targets, we must pursue carbon neutrality with unprecedented urgency and commitment."[9] Since California is already behind in meeting its 2030 emission reduction targets,[10] there is no question that robust building electrification must occur in order to reduce this gap. As the United Nations declares a

[8] SCE Opening Comments, p. 14.
[9] SCE Opening Comments, p. 2.
[10] California Air Resources Board State Auditor, *Improved Program Measurement Would Help California Work More Strategically to Meet Its Climate Change Goals* (Feb. 2021), p. 8, http://auditor.ca.gov/pdfs/reports/2020-114.pdf (finding that California must accelerate its annual carbon emission reductions by 40 percent over the next decade to reach its 2030 target).

"code red" for climate,[11] it is essential that California takes these basic steps to achieve its climate goals. Indeed, it is unconscionable that in the year 2022, when the world has known about climate change and its causes for decades, California utility ratepayers continue to provide well over $100 million annually in subsidies for customer-requested gas infrastructure expansion that will lock in unnecessary gas system emissions and costs for decades. **These subsidies undermine not only our climate goals, but also our equity and affordability objectives.**

As gas throughput continues to decline, as it has in recent years, unreasonable and avoidable gas system expenditures will be pushed onto the customers who can least afford to transition to electric appliances. Increasing low-income customers' energy burden by raising gas rates is the last thing we should be doing right now. Given the climate emergency we find ourselves in, why should Californians continue to subsidize new gas infrastructure investments that exacerbate the equity challenges of the clean energy transition while locking in emissions—especially when efficient, electric alternatives to gas appliances exist? It's time to stop digging the hole.

Regarding parties' opening comments on the Staff Proposal, we recommend that the Commission:

1. **Deny proposals to "phase in" or delay the elimination of gas line extension subsidies, because:**
    a. There are no significant near-term impacts of adopting the Staff Proposal, except for the near-term reduction in gas rates.
    b. The long-term impacts of adopting the Staff Proposal are insignificant compared to the sector-wide electrification that is already underway, and do not warrant delaying the Commission's decision on this matter.
    c. Eliminating gas line extension subsidies will have the greatest positive impact on equity, climate, and affordability if adopted on the timeline proposed by the Staff Proposal.

[11] *See* Nina Chestney & Andrea Janut, *U.N. climate change report sounds 'code red for humanity*,' Reuters (Aug. 9, 2021), https://www.reuters.com/business/environment/un-sounds-clarion-call-over-irreversible-climate-impacts-by-humans-2021-08-09/ (quoting U.N. Secretary-General António Guterres describing the IPCC Sixth Assessment Report as a "code red for humanity" that should "sound a death knell for coal and fossil fuels, before they destroy our planet.").

2. **Reject claims that retaining extensions for industrial and commercial uses is necessary or aligned with GHG emissions reduction goals.** The IOUs and Clean Energy fail to support their claims with anything more than sweeping statements about a laundry list of speculative use cases where subsidies are supposed necessary. If there are special cases that deserve subsidies due to purported economic and climate benefits, the IOUs should make that case in a stand-alone application.

## II. DISCUSSION

### 1. The Commission should deny proposals to "phase in" or delay the elimination of gas line extension allowances.

The Staff Proposal makes a clear and convincing argument for adopting a decision to eliminate gas line extension subsidies by the end of 2022, such that the change enters into effect by mid-2023. The Joint Parties, the Joint CCAs, SCE, and Cal Advocates all support this timeline in their comments. For example, SCE writes, "as the runway to meeting the state's 2030 decarbonization goals gets shorter, SCE recommends that the Commission work expeditiously to issue a Final Decision by the end of 2022 so the changes can become effective July 1, 2023."[12] Indeed, California has no time to lose in the fight against climate change. Eliminating subsidies that encourage the new use of gas in buildings—resulting in additional, avoidable gas infrastructure—is a clear first step to meeting California's building decarbonization goals.

However, CUE, SWG, and the Joint Utilities seek to slow down the timeline for the decision. CUE writes that "the Staff Proposal is extremely premature,"[13] while the Joint Utilities urge the Commission to "hold at least one workshop for the study and analysis of the issues presented in the Staff Proposal" and to "phase in [any modification to line extension policies] over the three to four years."[14] SWG even suggests that "the R.20-01-007 proceeding should conclude prior to acceptance or rejection of the Staff Proposal in this proceeding."[15] Each of

---

[12] SCE Opening Comments, p. 17.
[13] CUE Opening Comments, p. 2.
[14] Joint Utilities Opening Comments, p. 10.
[15] *See* Matt Gough, *California's Cities Lead the Way to a Gas-Free Future*, Sierra Club, *https://www.sierraclub.org/articles/2021/07/californias-cities-lead-way-gas-free-future*. This number grew to 54 cities and counties banning natural gas in new buildings after the City of Half Moon Bay and Santa Clara County passed reach codes in December 2021.

these parties significantly misrepresents the likely near- and long-term impacts of eliminating gas line extension subsidies, while ignoring the climate, equity, and affordability imperatives of adopting the Staff Proposal now.

a. *There are no significant near-term impacts of adopting the Staff Proposal, except for the near-term reduction in gas rates.*

In the near-term, adopting the Staff Proposal—which affects only new connections and eliminates subsidies (not "choice")—will only result in a decrease in gas rates due to the reduction in ratepayer-funded subsidies. As stated in the Staff Proposal, new all-electric homes currently account for only around 1.25 percent of the roughly 100,000 homes built each year.[16] Given that more than 50 California municipalities have now prohibited natural gas use in new buildings,[17] at least a portion of these new homes will move to all-electric regardless of the final decision in this Proceeding. Regardless, considering that there are about 13 million households in California, even if the Staff Proposal resulted in all of the 100,000 new homes built in Year 1 being all-electric, that would increase the number of electric households by only 0.8 percent. Even this ambitious scenario would result in negligible impacts to California's energy system in the short term.

Yet, the Joint Utilities request a phased-in approach over three to four years for any changes to the current line extension policies, arguing that this "would allow single-fuel and dual-fuel utilities to study the impact these new policies would have on their territory's electric load profile and generation needs to ensure the safety and reliability of their electric services."[18] Similarly, CUE writes that the impacts of eliminating gas line extension subsidies on "energy reliability, gas rates and gas workers . . . [as well as] existing natural gas infrastructure safety, maintenance and maintenance cost" are reason to put off adopting the Staff Proposal indefinitely. These arguments wildly overstate the potential near-term impact—and near-term planning required to accommodate—changes to the current line extension policies. To posit that the Staff Proposal, which only impacts new connections and does not impose an all-electric requirement,

[16] Staff Proposal, p. 6.
[17] See Matt Gough, California's Cities Lead the Way to a Gas-Free Future, Sierra Club, https://www.sierraclub.org/articles/2021/07/californias-cities-lead-way-gas-free-future. This number grew to 54 cities and counties banning natural gas in new buildings after the City of Half Moon Bay and Santa Clara County passed reach codes in December 2021.
[18] Joint Utilities Opening Comments, pp. 10 and 32.

could significantly impact “gas workers,” the “safety and reliability of [utilities’] electric services,” or “energy reliability” in the near-term is ridiculous, especially considering the fact that 54 cities and counties across California already have adopted reach codes imposing an all-electric requirement in new buildings and the new state building code encourages all-electric design.[19] In fact, CUE’s claim about gas system “maintenance and maintenance cost” impacts could not reasonably be considered an impact of avoiding *new* gas connections, but rather could only relate to the loss of existing customers due to electrification of existing buildings. Overall, these arguments significantly misrepresent the potential impacts of the Staff’s proposed changes.

The Joint Utilities also raise a red herring in suggesting that adopting the Staff Proposal could raise near-term gas rates by reducing gas throughput and sales relative to the utilities’ forecasts used for revenue allocation and rate design. They write on page 9:

> “Removing the gas interconnection incentives too quickly could result in a near-term increase in gas rates if the proposed changes substantially reduce the number of new connections relative to the forecasts within the utilities’ approved and ongoing ratemaking proceedings…Core and noncore customers, respectively, would be impacted by shortfalls if new connections fail to materialize due to an end to gas allowances, discounts and refunds.”[20]

The Commission should not be swayed by their speculation.

For one thing, while it is certain that eliminating gas line extension subsidies would avoid new costs for ratepayers, no one knows how effective this policy change will be in avoiding new gas connections. But even if core and/or non-core gas throughput and sales do decline as a result of the Staff Proposal, the Staff Proposal will be only one of many variables that could render the utilities’ forecasts used to set rates inaccurate. The Joint Utilities mention PG&E’s current 2023 GT&S Cost Allocation and Rate Design application, A. 21-09-018, which will establish a gas throughput and customer forecast for the 2023-2026 period and use that forecast to set revenue allocation and rate design.[21] PG&E’s gas throughput forecast makes assumptions about the rate at which the COVID-19-specific economic impacts will ramp down in its service territory; the weather, which will impact space heating; energy efficiency adoption; drought-related conservation (less hot water usage); and building electrification, including assumptions about

---

[19] Delforge, Pierre. *NRDC Blog: California Forging Ahead on Zero Emission Buildings.* August 11, 2021: https://www.nrdc.org/experts/pierre-delforge/california-forging-ahead-zero-emission-buildings.
[20] Joint Utilities Opening Comments, p. 9.
[21] Joint Utilities, p. 9.

building electrification retrofits, as well as new residential all electric construction (both of which will reduce gas sales for non-generation uses but may increase gas sales for electric generation).[22] PG&E's forecast could be too high or too low because of any or all of these variables. More cities could prohibit new gas connections than assumed by the utilities. The weather could be milder. The COVID-19 economic impacts could persist longer. Any of these and other factors or changes in these factors could impact customers through annual rate adjustments necessary to recover the utility's authorized revenue requirement. Simply put, there is no reason to halt the implementation of the Staff Proposal because of the possibility that gas sales will decline significantly enough to drive near-term gas rate increases, assuming those impacts are not offset or overwhelmed by other inevitable inaccuracies in the utilities' forecasts.

<u>The known rate impact of eliminating gas line extension subsidies is a reduction in rate base, and thus gas rates, relative to the status quo</u>. As the Joint Parties addressed in our opening comments, this policy change will benefit today's gas customers and those who remain on the gas system in the future (including low-income customers who cannot afford to electrify and renters whose landlords opt not to). Even SWG concedes this simple fact, stating, "the near-term impact on gas rates from eliminating the allowances would be a decrease."[23] The Commission should embrace this opportunity to promote equity and adopt the Staff Proposal now.

b. *The long-term impacts of adopting the Staff Proposal are insignificant compared to the sector-wide electrification that is already underway, and do not warrant delaying the Commission's decision on this matter.*

Many of the comments that seek to delay the timeline for adopting the Staff Proposal conflate the impacts of adopting the Staff Proposal with the long-term impacts of *an unplanned and unmanaged sector-wide switch from gas to electric end-uses in all buildings.* For example, CUE writes that "[b]efore the Commission considers building electrification policies like those in the Staff Proposal, the Commission must figure out how to (1) retain a qualified gas workforce to operate the system safely in a potential future environment of gas throughput decline and (2)

[22] A.21-09-018, PG&E 2023 Gas Transmission and Storage Cost Allocation and Rate Design Errata Testimony, Dec. 15, 2021, pp. 2B-3 - 2B-8 (Non-Generation Gas Demand and Throughput); pp. 2A-8 - 2A-9 (Electric Generation Gas Demand and Throughput) (available here: https://pgera.azurewebsites.net/Regulation/ValidateDocAccess?docID=681347).
[23] SWG Opening Comments, p. 23.

minimize the adverse effects on the gas workforce."[24] They also write that, "[u]ntil the Commission tackles the 'death spiral,'" it should not consider building electrification policies like those in the Staff Proposal."[25] Similarly, the Joint Utilities state that they would need "[a]dditional time to phase in any modifications to gas allowances, discounts and refunds to mitigate any potential negative impacts on electric load or the electricity grid and account for the negative financial impact to our customers."[26]

These comments incorrectly attribute possible long-term impacts of *unmanaged sector-wide electrification* to the elimination of gas line extension subsidies. The fact is that California is already moving towards building electrification, especially in new construction, and eliminating gas line extension subsidies—while an important first step—will have a minor impact compared to electrification of all of California's existing buildings. Moreover, planning for full-sector electrification is already occurring across multiple state agencies and Commission proceedings, and it is not a necessary "prerequisite" to ending gas line extension subsidies. SCE makes this clear, stating, "[e]ach year, SCE conducts transmission, sub-transmission, and distribution system planning assessments for a ten-year planning horizon that identify the grid needs to accommodate new generation resources, customer load and Distributed Energy Resource (DER) growth. SCE will continue working with the CEC to develop the BE [Building Electrification] forecast and include it in the Integrated Energy Policy Report (IEPR) load forecast to ensure the reliable and affordable integration of BE growth into SCE's annual system planning assessments."[27] As SCE assures the Commission, utilities are well-equipped to plan for the transition to full-sector building electrification—and the elimination of gas line extension subsidies is only a minor first step towards that future.

We agree with CUE and the Joint Utilities that long-term planning for electrification is important. However, it is not a prerequisite for adopting changes to the current gas line extension policies. Indeed, eliminating gas line extension subsidies is <u>critical to mitigating</u> some of the very planning issues that CUE raises, such as the challenge of financing the gas system equitably. Adopting the Staff Proposal would avoid rate base growth, benefitting today's gas customers and

---

[24] CUE Opening Comments, p. 5.
[25] CUE Opening Comments, p. 4.
[26] Joint Utilities Opening Comments, p. 33.
[27] SCE Opening Comments, p. 14.

future customers who remain on the gas system. This is part of the reason why it is so important for the Commission to adopt the Staff Proposal in full without delay.

*c. Eliminating gas line extension subsidies will have the greatest impact if adopted on the timeline proposed by the Staff Proposal.*

It is important to note that waiting three to four years to change gas line extension policies will likely miss the window in which eliminating the subsidies can have the greatest impact on both reducing GHG emissions and on improving affordability for all gas customers by avoiding these subsidies. This is because deferring the elimination of subsidies will push the implementation date closer to when the 2025 Building Code might establish a *requirement* for all-electric new construction. Therefore, the actual benefit of eliminating subsidies may only exist in the interim period before the next round of building codes. Delaying implementation creates a "lost opportunity" to capture incremental cost and emissions benefits. The Commission should adopt the Staff Proposal in full **this year** to help prepare the state for an all-electric 2025 Building Code and to mitigate avoidable gas infrastructure costs and emissions in the interim.

Moreover, as noted in the Joint Parties' opening comments, eliminating gas line extension subsidies has climate, equity, health, and other co-benefits that the state cannot afford to put off. California is already losing ground in meeting its GHG emission reduction mandates and must dramatically increase year over year reductions to meet its 2030 and 2045 climate targets.[28] Continuing to promote new gas consumption in buildings through ratepayer line extension subsidies will only put the state further behind in meeting its goals. Now is the time for the Commission to accelerate its pace in electrifying buildings if we are to have any hope of meeting these goals.

**2. The Commission should reject claims that retaining extensions for industrial and commercial uses is necessary or aligned with GHG emissions reduction goals.**

The Joint Utilities, Clean Energy, and Small Business Utilities Advocates (SBUA) state that they are "not opposed" to eliminating line extension subsidies for residential and most small commercial uses, but they argue that the Commission should retain subsidies for a wide-ranging

[28] California Green Innovation Index, 13th Edition (2021), https://greeninnovationindex.org/2021-edition/ (finding that "California must now sustain a 4.3 percent annual decrease through 2030—a reduction that is more than 2.5 times greater than was achieved in 2019.").

patchwork of commercial and industrial uses. In many cases, they make only cost arguments for these "exemptions," and, on occasion, they posit that the exemptions would actually further California's GHG emissions reduction goals. However, they fail to support these claims with evidence, and in several cases, their arguments are demonstrably false. We describe two examples of this below. The Commission should not allow these exemptions but should instead adopt the Staff Proposal in full without delay. If there are special cases that deserve subsidies due to supposed economic benefits and climate benefits, the IOUs should have to make that case in a stand-alone application.

*a. Example 1: Restaurants*

A glaring example of an unsubstantiated proposed carveout to the Staff Proposal is SBUA and the Sempra Utilities' recommendation to retain gas line extension subsidies for restaurants. In defense of this position, SBUA argues that the transition in restaurants requires "substantial upgrades, including the purchasing of new, more expensive ranges and ovens, induction-compatible cookware and electric panel upgrades, as well as education,"[29] while SoCalGas and SDG&E simply offer, "restaurants rely on natural gas to cook particular food. These customers may also have to deal with higher energy and capital costs, while also being unable to provide food in the event of a power outage."[30]

The Sempra Utilities' and SBUA's arguments fail to recognize that adopting the Staff Proposal would not eliminate customer choice. If, as the Sempra Utilities posit, a new restaurant requires gas to "cook particular food," or is worried by the prospect of "being unable to provide food in the event of a power outage," they can still opt to purchase a new mixed-fuel building. They simply will not receive ratepayer subsidies to offset their choice of gas, which is accompanied by significant climate, equity, and worker health externalities.

SBUA also highlights the plight of existing small business customers, such as restaurants, who may seek a gas service extension, either to expand existing operations or switch from "trucked propane to piped natural gas."[31] SBUA suggests that "commercial customers that obtain gas line extensions are probably more likely to already use trucked, tanked propane," and asks

---

[29] SBUA Opening Comments, p. 2.
[30] Joint Utilities Opening Comments, p. 15.
[31] SBUA Opening Comments, p. 2.

whether the Staff Proposal could encourage long-term propane dependency and the associated higher GHG emissions and transportation emissions compared to piped natural gas.[32] SBUA provides no data indicating the frequency with which such small business customers have requested gas line extensions in the past 5-10 years to switch from propane. As such, the Commission should not rely on this scenario – which could be more hypothetical than actual – in determining how to modernize gas line extension policies. Moreover, the policy priority for existing restaurants using trucked propane should be to encourage electrification, not gas line extension.[33] Converting from propane to natural gas provides more limited GHG emissions reductions and may require customers to invest in future electrification retrofits as new local and state building codes are adopted.

While the Joint Parties disagree with SBUA's argument for retaining gas line extension subsidies for existing small businesses, including restaurants, we support SBUA's request that the Commission carefully consider the economic impacts on "low-income, small commercial and rural customers" of broader policies intended to promote building electrification and related, to plan for changes in the utilization of the existing gas system.[34] Policies that fail to preserve access to affordable, essential utility services for these customers are failed policies.

*b. Example 2: CNG vehicle fueling stations*

Regarding CNG stations, Clean Energy writes that "the uncomfortable truth is that sufficient electric MD/HD vehicles are simply not available for near-term deployment . . . they are not a near-term viable path forward, but a longer-term objective." They claim that "since electrification of medium- and heavy-duty trucks cannot currently scale up overnight, the most immediately available solution to removing diesel trucks from the roadways is to ramp up the use of RNG MD/HD fleets."[35] The Joint Utilities also request an exemption for CNG stations,

---

[32] SBUA Opening Comments, pp. 4-5.

[33] See Billimoria, Sherri, Mike Henchen, Leia Guccione, and Leah Louis-Prescott, "The Economics of Electrifying Buildings: How Electric Space and Water Heating Supports Decarbonization of Residential Buildings," Rocky Mountain Institute (2018), p. 10 (recommending that policymakers "[p]rioritize rapid electrification of buildings currently using propane and heating oil in space and water heating," because of the GHG emissions benefits and because electrification is very cost-effective for propane customers). While the RMI study addresses propane-fueled space and water heating in residential buildings, not restaurant end uses, the cost of propane and emissions from combustion are not specific to the residential sector.

[34] SBUA Opening Comments, p. 5.

[35] Clean Energy Opening Comments, pp. 14-15.

simply writing "PG&E has an interest in construction of CNG stations and fleet conversions from diesel to natural gas" and that this could "encourage low-carbon development," without offering further justification.[36]

Clean Energy's claim regarding the near-term availability of "sufficient electric MD/HD vehicles" is demonstrably false. On the contrary, by the time the line extension policy changes take effect in 2023, there will be 48 MD vehicle models available from 27 different manufacturers and 29 HD vehicles available from 17 manufacturers.[37] Electric M/HD vehicles are also cost-competitive with internal combustion engine (ICE) vehicles, such as those which burn diesel and CNG. The Maine Department of Environmental Protection reports that electric trucks "have higher upfront costs but have lower operating costs than conventional trucks," and that "[t]he predicted fuel savings are expected to be greater than the increased purchase price of ZEVs, even if manufacturing costs are fully passed through to purchasers."[38] An MJ Bradley study additionally finds that by 2025 EVs will reach life-cycle cost parity with new ICE models in nine market segments representing 72% of the current in-use M/HD fleets in the country.[39] Finally, CARB's Draft Clean Fleet Total Cost of Ownership (TCO) report from 2021 shows that EVs already have a lower TCO than CNG vehicles for many classes of M/HD vehicles.[40]

In SoCalGas' most recent GRC, the Commission correctly denied the utility's request for new CNG Stations and CNG vehicles.[41] The Commission later cited SB 350 Section 32(I)(2), which states, "It is the policy of the state and the intent of the Legislature to encourage transportation electrification as a means to achieve ambient air quality standards and the state's climate goals."[42] In this Proceeding, the Commission should make the same finding. The construction of new CNG stations is generally not aligned with California's climate goals and should not be exempted from line extension policy changes.

[36] Joint Utilities Opening Comments, pp. 4 and 23.
[37] MJ Bradley, Electric Vehicle Market Status – Update: Manufacturer Commitments to Future Electric Mobility in the U.S. and Worldwide.
[38] Maine Department of Environmental Protection, Advanced Clean Trucks Rulemaking Fact Sheet, p. 3.
[39] MJ Bradley Medium- & Heavy-Duty Vehicles: Market structure, Environmental Impact, and EV Readiness.
[40] CARB Draft Advanced Clean Fleets Total Cost of Ownership Discussion Document, pp. 4-6.
[41] D.19-09-05, p. 87: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M316/K704/316704666.PDF.
[42] D.19-09-05, p. 380: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M316/K704/316704666.PDF.

Overall, the Joint Utilities and Clean Energy fail to support their claims that retaining gas line extension subsidies for industrial and commercial uses is aligned with California's GHG emissions reduction goals or necessary for financial reasons. On page 7, the Joint Utilities propose a list of ten categories that "provide financial and/or environmental benefits to California ratepayers," which includes the examples give above, "industrial customers," "large commercial customers," "electric generation customers," and more. These categories are overly broad, and the Joint Utilities fail to explain 1) how gas line extension subsidies are critical to the financial viability of these projects and would provide a net economic benefit to the other customers who would fund the subsidy, and 2) how specific project types within each category would deliver GHG emissions reductions compared to electrification alternatives. Rather than providing broad and unjustified exemptions to new line extension policies, we strongly urge the Commission to adopt the Staff Proposal in full without delay. If there are special cases that deserve subsidies due to supposed economic benefits and climate benefits, the IOUs should have to make that case in a stand-alone application—however, these projects should be evaluated for cost-effectiveness and emissions-reductions against the larger context of available solutions. Finally, if the Commission does choose to deliberate further on these exemptions, it should by no means slow down the timeline for eliminating residential and small commercial line extension subsidies.

## III. CONCLUSION

Eliminating gas line extension subsidies is a critical first step in the transition to clean-energy buildings that is long overdue. We are in a climate emergency, and California has committed to achieving economy-wide decarbonization by 2045. It is inequitable and completely unreasonable to incentivize investing hundreds of millions of customers' dollars into new gas infrastructure when efficient, electric alternatives exist and the State is on a path towards all-electric buildings. While an important first step, the impact of eliminating gas line extension subsidies will also represent only a drop in the bucket compared to long-term building electrification—and, in the near term, it will result in an equitable reduction in gas rates and reduce the potential of stranded assets. The Commission has no time to waste in adopting the Staff Proposal. We urge the Commission to adopt it in full by the end of 2022, in alignment with California's urgent climate, equity and affordability objectives.

Dated: January 10, 2022

Respectfully submitted,

/s/ Kiki Velez
/s/ Merrian Borgeson
Natural Resources Defense Council
111 Sutter Street, 21st Floor
San Francisco, CA 94104
Tel: 415-875-6100
Email: kvelez@nrdc.org

/s/ Matt Vespa
Earthjustice
50 California St., Suite 500
San Francisco, CA 94111
Tel: (415) 217-2123
Email: mvespa@earthjustice.org
***On Behalf of Sierra Club***

/s/ Michael Colvin
Environmental Defense Fund
123 Mission Street 28th Floor
San Francisco, CA 94105
Tel: (415) 293-6122
Email: mcolvin@edf.org

/s/ Nihal Shrinath
Sierra Club
2101 Webster Street, Suite 1300
Oakland, CA 94612
Tel: (415) 977-5566
Email: nihal.shrinath@sierraclub.org

/s/ Deborah Behles
Of Counsel for CEJA
2912 Diamond Street, #162
San Francisco, CA 94131
Tel: (415) 841-3304
Email deborah.behles@gmail.com
***On Behalf of CEJA***

/s/ Justin Bogda
/s/ Jina Kim
Communities for a Better Environment
340 Marina Way
Richmond, CA 94801
Tel: (510) 302-0430
Email: jbogda@cbecal.org, jkim@cbecal.org
***On Behalf of CEJA***

/s/ Hayley Goodson
The Utility Reform Network
785 Market Street, Suite 1400
San Francisco, CA 94103
Tel: (415) 929-8876
Email: hayley@turn.org

**Attachment A: VERIFICATION**

**(See Rule 1.11)**

The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information and belief, and as to those matters I believe them to be true.

I, Hayley Goodson, declare under penalty of perjury that the foregoing is true and correct.

Executed on January 9, 2022, at Berkeley, California.

___________________________________

*On behalf of The Utility Reform Network*

I, Matthew Vespa, declare under penalty of perjury that the foregoing is true and correct.

Executed on January 9, 2022, at San Francisco, California.

Matthew Vespa

___________________________________

*On behalf of Sierra Club*

I, Deborah Behles, declare under penalty of perjury that the foregoing is true and correct.

Executed on January 9, 2022, at San Francisco, California.

______________________________

*On behalf of the California Environmental Justice Alliance*

I, Danielle (Kiki) Velez, declare under penalty of perjury that the foregoing is true and correct.

Executed on January 9, 2022, at Menlo Park, California.

Kiki

______________________________

*On behalf of Natural Resources Defense Council*

I, Michael Colvin, declare under penalty of perjury that the foregoing is true and correct.

Executed on January 9, 2022, at San Francisco, California.

______________________________

*On behalf of Environmental Defense Fund*